Position Statement

In this evaluation case concerning Dell Online we are situated in the year 1997. At that time, Dell was already a well-established company that with revenues of nearly $12 billion and a growth rate of 50% over the last three years. In this case analysis we will focus on the following questions: 1. What enabled Dell to become a market leader in the PC market? What problems Dell faces at the moment, and what problems it could potentially face in the future? What is Dell's current growth strategy? And at the end of the analysis I will provide some recommended actions that will help Dell preserve their market share and potentially capture more in the future, in addition to enhancing their digital operations and, hence, sales.

Criteria Selection

For my evaluation I will use the following criteria: I will first present a SWOT Analysis of Dell followed by introducing Dell's competitors distribution strategy that will help me later introduce Dell's distribution strategy. After that I will provide a STP analysis, then I will present Dell's growth strategy and I will end my evaluation with a quantitative analysis. All of these criterias will enable me to provide the reader with a well-rounded picture of all the important details needed to understand this case and that made me recommended the actions I recommended at the end of this paper.

Evaluation

SWOT ANALYSIS

Strengths	**Opportunities**
-Dell is a big company, with 1997 revenues of nearly $12 billion and a growth rate of 50% over the last three years. -Dell's online store enabled visitors to customize their searches in addition to providing the status of their order at their convenience and even receive excellent technical support online. Moreover, the store was open 24 hours a day. -The Dell Direct Model was a very efficient "made-to-order" high velocity, low cost distribution system characterized by direct customer relationships, build-to-order manufacturing, and products and services targeted at specific market segments. -Dell was well positioned to take advantage of the Internet opportunity unencumbered by an existing distribution channel, Dell could go direct to the customer as usual, but others had to use a different medium to go direct. - Dell was able to accurately forecast demand based on marketing communication efforts, that permitted the company to reduce their input costs. -Dell offered their customized products at a 10 to 15% price advantage earned by its direct model to both win new accounts and deepen penetration of existing accounts. -Dell found very high levels of satisfaction among its customers with almost all customers stating that they were satisfied or very satisfied with their purchase. -Service efficiencies inherent in the Internet model represented additional potential savings for Dell. -Internet has enabled Dell to enter the consumer and small business segments.	-U.S. market was an early adopter of Internet capabilities, with 65% of U.S. businesses with 50 or more employees either planning to use the Internet or already online, compared to 45% of German companies and 28% of French companies. -Almost universally, industry observers predicted a surge in electronic commerce driven by the Internet. -Dramatic leap forward in the use and functionality of the Internet. In 1996, there were 20 million users worldwide, with the number of users expected to double every year. -Dell's key customers, business users, were major drivers of the Internet, with 82% of Fortune 500 companies providing their employees with Internet access, and 64% of Fortune 500 companies having developed Intranets (internal communications networks). -Increasing time usage of the internet by professionals and normal consumers.

Weaknesses	**Threats**
-The consumer market could lead to the maelstrom of the sub-$1000 PC that would ultimately erode Dell's profitability in both the consumer and ultimately the business markets. -Dell's price edge is gradually eroding. Also, it has yet to prove that users in many countries are willing to buy direct. -Dell's distribution model could only reach 30% of PC customers. -Eventhough Dell organized its business into four regions, the Americas, Europe, Japan, and Asia, the Americas represented 65% of Dell worldwide sales. -Dell doesn't manufacture any of the components that go into their products, they just assemble them.	-Most internet sales come from experienced computer users, with only 8% of DCS customers indicating that this was their first PC purchase. -Competition in the PC industry is intense as profit margins have fall in recent times. Moreover, the cyclical nature of the industry could lead to inaccurate demand projections. -With the success of its Dell direct model and its recent Internet application, and declining industry margins, many vendors were moving toward a build to order model. -About one-third of incomplete orders were attributable to customer concerns over security and were, therefore, lacking credit card information. Many consumers aren't fully confident of sharing their billing information through the internet.

<u>Competitors' Distribution Strategy</u>

Dell's competitor used intermediaries to distribute their products. Intermediaries are firms that help the company to promote, sell and distribute its goods to final buyers. One way intermediaries add value is by selling and promoting in different geographical locations. Intermediaries sales enable manufacturers reach many small consumers at a lower cost than if they would do it themselves. In addition, the intermediaries, most of the time, are often more trusted to the customer than the distant unknown manufacturer making interactions more efficient. Another way intermediaries add value is by risk bearing. Intermediaries assume risk by taking title and bearing the cost of in the form of theft, spoilage, damage, etc. Alse, they add value directly to the consumer by saving their money money via buying huge quantities of product and breaking it into small quantities to sell (as they buy large quantities of output, the cost per-unit of output is less); moreover, they sometimes offer financing to their customers by providing them with credit. Similarly, retailers add value directly to producers via inventories, reduce inventory cost to suppliers, transportation as they can provide faster and cheaper delivery of the manufacturer products, financing as they finance their suppliers by ordering early and paying on time and by supplying information to their producers of market developments and competition. Intermediaries are able to add all of this value by having strong channel of distribution. Distribution channels are means used to transport output form the producer to the final consumer through intermediaries. Examples of intermediaries that exist in the PC industry include but is not limited to retailers, distribution centers, independent value added-resellers, franchised sales and service centers, wholly owned sales and service centers and national retail chain.

Due to the reasons given above, selecting good channel members is a pivotal for most companies' success in the PC industry. A good channel partner can promote effectively and sell efficiently the product that its producers supplies him with, which translates into a profit for its producer. When deciding channel member a company must first decide on channel breadth – the number of channel members to use at each level. Two strategies are used by Dell's competitors: intensive distribution, and selective distribution.

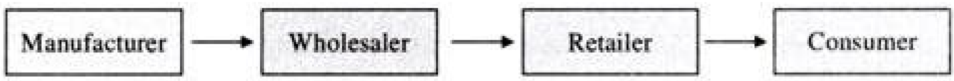
1. Intensive distribution – a strategy that consists in supplying their output to as many outlets as possible. This approach was followed by companies that used a three-level channel through retairles as exemplified below.

The next image shows a three level channels, which encompass three intermediary levels: a wholesaler, a jobber (also known as middleman) and a retailer. In this example, the producers first sell to wholesaler than then supply to jobbers that end up selling the product to small retailers that exchange it with consumers for money.

For the PC industry this would be a Retail distribution (30% of the US Market): the wholesaler would be a national retail chain (eg. Circuit City, CompUSA), the jobber would be a distribution center and the retailer would be the retail stores. This channel usually sold standard product offerings primarily to individual consumers and small businesses.

2. Selective distribution- the use of a moderate amount of intermediaries to promote, sell and distribute the producers goods. A company that followed this strategy in the PC market was Compaq that sold almost exclusively through indirect distribution channels which included top-tier or master distributors, regional distributors, resellers, and retailers. By using selective distribution, these companies could concentrate their efforts in a selective number of locations, which not only provides them with more control and less distribution cost, but supplies them with a good market coverage to satisfy the needs of their customers.

   Companies that followed this strategy such as Compaq used mainly a two-level channel such as the one shown below:



In the PC industry the wholesaler would be the national distributor (eg. Ingram, Merisel) and the retailer would be independent value-added resellers in the case that this is indirect through VARs (15% of the US market is supplied in this way). The VARs had direct relationships with mostly business customers, providing system integration, service, specialized software, etc.

If the indirect distribution channel is through National Resellers, which supplied 33% of the US market, then the PC's manufacturer will supply the wholesaler that would be a national reseller (eg. Micro Age, Compu Com) and then the product will be passed to the retailer or in this case the franchised sales and service centers or the wholly owned sales and service centers. Similar to the VAR, the national reseller's strength was its ability to customize systems to meet individual customer needs.

<u>Dell's Distribution Strategy</u>

Dell, contrasting their direct competitors, didn't used any distributors, or in other words, didn't had channel members as they followed a direct distribution strategy, meanwhile their competitors followed a indirect. Having no channel members has its benefits as it may reduce the costs a producer undertake and consequences as it reduces, or eliminates the four forms of utility that channels offer: time, form place and ownership. Moreover, this also means that Dell had to reach consumers, either with their own sales force and/or through advertising and promotional efforts. This type of distribution is an example of exclusive distribution-limiting the number of intermediaries managing the product (zero in this case)- which enabled Dell to gain strong control over prices, promotion, credit and services, moreover, it also enhanced it brand image.

Dell used a zero level channel (a channel without intermediaries).

A zero level channel permits Dell to request their input from suppliers, just after they get a customer request, which drastically reduces the prices for inputs as they are very demand susceptible. It also gives priority to their customers in a way no other competitor that uses an indirect distribution strategy can, which yields consumer loyalty and satisfaction. Moreover, their reliance in this distribution method has made them highly price and time efficient, offering their customized products at a 10 to 15% price advantage earned by its direct model, while also giving consumer the end-product in 36 hours that is much faster than their competitors. It should also be highlighted that this makes Dell to be well positioned to take advantage of the Internet opportunity unencumbered by an existing distribution channel, Dell could go direct to the customer as usual, but others had to use a different medium to go direct. As a result Dell has been extremely successful in their internet commerce and has maintained their high levels of satisfaction among its customers with almost all customers stating that they were satisfied or very satisfied with their purchase.

However, this distribution strategy has also some major consequences. Dell is highly susceptible to changes in demand from inputs, which makes them sometimes face problems when carrying customer requests. Also, the company does not manufacture any of its products, hence, they can be hugely affected by the malfunctioning of their inputs. The company is also highly centralized because of this strategy and this will be harmful when expanding to other markets. Moreover, Dell is in-charge of all the advertisement and promotions of their products, which is a massive burden and cost, while their competitors are aided by their distributors. Additionally, Dell is only able to supply to 30% of the U.S. market with this type of distribution. Nevertheless, the biggest weakness of this strategy is that the direct model is relatively easy to copy and many vendors are moving towards this model because of the success of Dell.

STP Analysis

1. Segmentation is the first step of the STP analysis. It consists of dividing a population with heterogeneous wants and needs into almost homogeneous segments of that population which share similar needs and wants. Dell segmented the market into two: customers as either "transactional" or "relationship," with about 40% being relationship, 30% being transactional and the rest being a blend of both. This segmentation results to be broad and as a consequence has raised problems such as the consumer market eroding Dell's profitability in the business markets.
2. Targeting, or the second step of the STP analysis, is the act of the company of choosing the market segments that best fit the company and target them. Traditionally, the company targeted mainly corporations and professionals that could be either transactional or relationship. They were able to do that efficiently by offering them highly customizable and complex product offerings that satisfied their needs. However, with the emergence of e-commerce and Dell`s adoptance of it, a new segment that Dell traditionally didn’t target appeared in the picture, the consumer segment. The fact that this segment is buying the

virtually the same products the same way could potentially erode Dell's business and professional market share.

3. Positioning is the last step of the STP process and it has all to do as to how the company positions itself in the market segment they target. With their high-end technology at value prices and highly-reliable products, the company position themselves as a leader in the PC market that offers the highest quality and leading technology at competitive pricing with flexible customization capability and superior client service.

Growth Strategy

With its innovation, the direct model and highly customizable offerings, and all the benefits that yielded indirectly due to the two mentioned innovations (competitive price, delivery-time, highly regarded customer service, etc.) Dell was able to rapidly penetrate various market segments of the PC market. Nonetheless, the strategy that made Dell what it was, alone, wouldn't help them reach their goals due to the rising competition in the industry because of new entrants, technological innovations and competitive pricing. Moreover, as mentioned earlier in this analysis, many other companies have started copying Dell's direct model strategy, which could hinders their growth if no action is taken. This are some of the actions the company will take to foster their growth:

1. 50% of Sales Online

   One of the company's main goal is to maximize their sales via dell.com. This will and has not only enabled them to reduce costs, but has improve efficiency in the costumer service part of the business and has permitted workers to allocate their time elsewhere, which could potentially reap benefits. The company has been able to steadily increase the number of sales using the internet by continuously improving their page and making it more consumer-friendly, in addition to offering more information regarding their products and segmenting their products by using the different necessities of different market segments. This strategy has propulsed Dell growth and could potentially set Dell as a market leader in e-commerce, which seems to be a pivotal part of future commerce.

2. Data Usage

   Dell's webpage has given Dell's executives metrics regarding what consumers want. They intend to use this information, in addition to information acquired by customer feedback to improve their offerings and services and in this way become more attractive to potential new customers.

3. Product Diversification

   In recent times, Dell has improved and enlarged their product offerings, which satisfies the company's goal to expand internationally.

4. Customer Value

   All of the earlier mentioned innovations, in conjunction with already existing services that Dell provides, supply a degree of added-value not offered by any of Dell's competitors. This added value has the potential to increase Dell's market share, and thereby, their profits.

Quantitative Analysis

Cost savings calculations:

Cost of sales = $6.093 billion

net sales = $7.759 billion

Net Sales / Cost of Sales = $1.27 million, 78.52% of the net sales revenues goes into cost of sales.

The transactional transaction model worked in this way: 200,000 catalogs dropped -> 10,000 calls -> 2,0000 orders. If we assume this is the only way the company sold their products and that the price for each of the customer's orders was $1000, we get:

Every 100 catalogs drop, the company got 1 order, this yields a 1% sales efficiency with catalogs.

For every 20 catalogs dropped, the company received one call that had a 20% sales efficiency.

If we assume the each sale was one of $1000, the company sold 7,759,000 products. Similarly, given that the cost per sale is 78.52% that of the revenue from sell we get that the revenue from 6,092,366.8 of the products sold went directly into the cost of sales.

Transactional Internet model

Given that his model worked in this way: 100,000 visits -> 500 E-orders or -> 5000 calls ->1750 orders. If we assume this is the only way the company sold their products and that the price for each of the customer's orders was $1000, we get:

For every 200 visits, the company gets one direct order, which yields an efficiency of 0.5%.

For every 20 visits, the company gets one call, which 35% of the time transforms to a sale.

For every 200,000 visits the company gets 4500 orders. This is 8.88% better than in the previous model. If we assume the company just has sales cost every time it receives a consumer call we get, that the costs per sale are reduced by 44.4%. If we extrapolate this numbers we get that the cost to sell the same number of output as in 1996 (7,759,000 products) will be of 2,680,641.4 products or $2,680,641,392 million dollars, which gives us a savings of up to $3.412 billion in cost of sales.

This quantitative analysis show us is a no-brainer to take more of a e-commerce as it reduces massively the cost of sales, which drastically increase profits.

Recommended Actions

After concluding my evaluation I will now present solutions to all the problems I pointed out in the previous part of this paper. I will segment my recommended action into: short-term and long-term.

Short-Term

1. More Data Drive
   a. Recently, the company has become more data driven, with their introduction to e-commerce. I recommend the company to continue this trend as it would enable the to better understand consumer needs and wants and to tailor their present and future offerings towards those needs and wants.
      i. Pros

            1. This approach will enable the company to maintain contact with their customers and offer them what they want and need.
        ii. Cons
            1. Many customers won't like that the company is storing their information as it goes against their privacy rights.
2. Better STP
    a. As signaled in my analysis, Dell has incorrectly segmented the market. Their current segmentation is to broad, which could affect their future profit margins. The company should segment again the market until no cannibalization between market segments is achieved. I recommend the following 6 segments: Consumer-relationship , Consumer-transactional , Professional-relationship , Professional-transactional , industrial-transactional and industrial-relationship.
        i. Pros
            1. This could potentially eliminate the market segment cannibalization that Dell could potentially experience. Moreover, it could boost Dell's market share as it improves Dell's positioning and targeting in various market segments.
        ii. Cons
            1. Increasing the number of segments increases complexity. Furthermore, there will be more promotional related cost and product development costs as promotions must vary per market segment and the same holds for product offerings.

Long-Term

1. Product Hedges
    a. To reduce the cannibalization that could potentially occur due to the fact that Dell has expanded to the consumer segment, the company should seek to increase their product hedges. I suggest applying the following 3 edges: price edge (reduce price of goods targeted to consumers and increase that targeted to business and professionals), increase perceived complexity of goods targeted to business and professionals and finally open a new different web page for goods targeted to consumers.
        i. Pros
            1. This could reduce the number of consumers of the consumer segment that buy from other segments, which eliminates cannibalization.
        ii. Cons
            1. A change in pricing may decrease market share in non-consumer market segments. Additionally, this approach increases cost for the company as it also assumes the company will advertise each product line differently and separately.
2. Expansion (open more facilities)
    a. Dell follows a direct distribution strategy, which has yielded most of the competitive advantage that Dell has. In order to safeguard this competitive advantage, given that many companies seek to copy Dell's strategy, Dell should focus on opening more facilities to enhance their efficiency and offer more customer value in the form of time and pricing (due the reduced transportations cost as distances to travel are potentially shorter).
        i. Pros
            1. Enables the company to reach more potential customers, while at the same time, potentially, improving the company's efficiency and adding more customer value.

            ii. Cons
                1. There’s a huge investment cost associated with buying more land and capital to built the needed facilities.

3. Continue seeking to enhance customer experience
    a. One of the contributing factors that has Dell to become the giant it is today has been their focus on improving customer experience. With the rise in competitions, and the steady decrease in profit margins, the company should focus on bringing more value to customers, which could be achieved by improving their in site-service, using consumer’s feedback and making their web.page continuously more consumer friendly.
4. Expand to retail distribution in some locations (Exclusive distribution)
    a. If the company wants to expand internationally, they will need the help of distributors. I recommend a one-step distribution method (from the manufacturer directly to retailers). The retailers must be selected by the company so that Dell doesn’t loss exclusivity, damages their brand image and their say in price and promotion strategies.
        i. Pros
            1. This would permit the company to expand internationally and to reach a broader range of consumer they currently can’t reach because of their direct distribution strategy.
        ii. Cons
            1. It goes against one of the company’s core strategies that has lead to its success.
5. Product Diversification
    a. I also recommend the company to work towards improving and enlarging their product offerings. This would enable the company to better target specific market segments with products explicitly designed for those markets.
        i. Pros
            1. Improves company`s targeting and positioning in various market segments that would help Dell maintain its competitiveness in the various markets it supplies.
        ii. Cons
            1. Increases R&D costs, advertisement costs, sales costs and in addition, it segments the focus of the company.

Value Added: Value added services included: DellPlus that enabled Dell to install commercial and proprietary software and peripherals to customer's specifications; DellWare, a one stop shopping service of thousands of hardware and software products (Dell maintained no inventory; orders were placed electronically for immediate shipment to affiliated warehouses); and Dell Asset Management where Dell helped customers with leasing packages.